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Date of filing:	July 31, 2020
Quarterly accounting period:	Second quarter of the 36th term (from April 1, 2020 to June 30, 2020)
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Company name (English):	JAPAN TOBACCO INC.
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Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in Principal Management Benchmarks

Term	Six months ended June 30, 2019	Six months ended June 30, 2020	35th term
Accounting period	From January 1, 2019 to June 30, 2019	From January 1, 2020 to June 30, 2020	From January 1, 2019 to December 31, 2019
Revenue [Second quarter] (Millions of yen)	1,058,549 [553,127]	1,030,218 [510,598]	2,175,626
Profit before income taxes (Millions of yen)	290,618	225,961	465,232
Profit for the period (Millions of yen)	238,424	173,354	361,622
Profit attributable to owners of the parent company [Second quarter] (Millions of yen)	226,451 [105,611]	172,495 [86,122]	348,190
Comprehensive income (loss) for the period (Millions of yen)	210,948	18,345	365,816
Total equity (Millions of yen)	2,726,015	2,624,016	2,743,611
Total assets (Millions of yen)	5,467,263	5,347,173	5,553,071
Basic earnings per share [Second quarter] (Yen)	127.23 [59.54]	97.23 [48.54]	195.97
Diluted earnings per share (Yen)	127.18	97.19	195.87
Ratio of equity attributable to owners of the parent company to total assets (%)	48.39	47.59	47.95
Net cash flows from operating activities (Millions of yen)	221,938	126,634	540,410
Net cash flows from investing activities (Millions of yen)	(82,263)	(27,883)	(123,571)
Net cash flows from financing activities (Millions of yen)	(104,044)	(24,978)	(333,832)
Cash and cash equivalents at the end of the period (Millions of yen)	309,159	407,740	357,158

Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

2. Filing company's trends in principal management benchmarks are not disclosed as the Company prepares quarterly consolidated financial statements.

3. The yen amounts are rounded to the nearest million.

4. Revenue does not include consumption taxes.

2. Business Description

During the six months ended June 30, 2020, there were neither material changes in the business of the Group (the Company, 231 consolidated subsidiaries and 12 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

II. Review of Operations

1. Business and Other Risks

During the six months ended June 30, 2020, there were no new businesses or other risks.

There were no material changes to the items regarding business and other risks mentioned in the previous fiscal year's Annual Securities Report.

Furthermore, although the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of March 31, 2020) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 5 of March 31, 2020) were established on March 27, 2020, the review of tobacco excise tax left the situation unchanged from that described in "II. Review of Operations, 2. Business and Other Risks, (2) Risks Relating to the Group's Tobacco Business, c. Taxes levied on tobacco" in the Annual Securities Report for the previous fiscal year.

Concerning the spread of the novel coronavirus disease (COVID-19), the Group is conducting business operations of the tobacco business, the Pharmaceutical Business and the Processed Food Business fully in compliance with the policies and directives of the governments and relevant authorities of each country. From the perspective of preventing the spread of COVID-19 inside and outside the Group and ensuring the safety of employees and their families, etc., the Group has actively used teleworking, enhanced workplace hygiene management and implemented various other infection-prevention measures.

For the six months ended June 30, 2020, the spread of COVID-19 has affected the Group businesses, including a decrease in duty-free sales in the tobacco business and a change in consumer trends in the Domestic Tobacco Business and the Processed Food Business due to people voluntarily staying home following the declaration of a state of emergency, and the impact is expected to lower revenue group-wide by approximately ¥35.0 billion.

At present, nothing is obstructing business continuity. However, it is unclear what impact there will be on mid- to long-term consumer trends and demand trends in each business, and regarding the business and financial impacts, it is also necessary to carefully monitor and examine foreign exchange rate trends and the responses of the governments and relevant authorities of each country. Because it is difficult at this time to predict when the spread of COVID-19 will be brought under control and its future impact, COVID-19 may negatively affect the Group's business performance going forward.

At present, there are no problems in procuring the necessary funds for business operations, and the amount of credit available through commitment lines is sufficient. However, as a provision for unforeseen circumstances, the Group increased its on-hand liquidity by ¥100.0 billion or more through the issuance of commercial papers in April 2020 and other means.

2. Management Analysis of Financial Position, Operating Results and Cash Flows

Major notes concerning the operating results from the viewpoint of the management are as follows.

Matters concerning the future in this document were determined as of June 30, 2020.

(Non-GAAP Financial Measures)

The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group's target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group's performance.

Adjusted operating profit

Adjusted operating profit presented is operating profit (loss) less amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

Furthermore, growth rate in adjusted operating profit at constant rates of exchange is also presented as additional information. This is a financial measurement that excludes foreign exchange effects by translating

and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous year. The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant rates of exchange, at mid to high single-digit over the mid- to long-term, and will continue to pursue this goal.

(Core Revenue From Tobacco Business)

Regarding tobacco business, core revenue is disclosed. Specifically, the Domestic Tobacco Business includes revenue from the domestic duty-free market as well as from markets in China, Hong Kong and Macau that are under the control of the Company's China Division, in addition to revenue related to RRP, little cigars and the like, but it excludes revenue related to imported tobacco delivery charges, among others. In addition, the International Tobacco Business includes revenue related to waterpipe tobacco products and RRP, but excludes revenue related to the distribution business and contract manufacturing, among others.

(RRP)

Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as E-Vapor products and T-Vapor products.

E-Vapor products do not use tobacco leaf, instead using electrical heating of a liquid inside a device or specialized cartridge to generate vapor for the user to enjoy.

Conversely, T-Vapor products do use tobacco leaf, but instead of burning the leaf, they use methods such as heating the leaf to generate tobacco vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.

The Group is committed to developing, testing and bringing to market such new and innovative products for sustainable growth.

Analyses and examinations concerning the operating results from the viewpoint of the management are as follows.

(1) Business Results

a. Consolidated results

	Six months ended June 30, 2019	Six months ended June 30, 2020	(Billions of yen) Change
Revenue	1,058.5	1,030.2	(2.7)%
Adjusted operating profit	287.8	287.6	(0.1)%
Operating profit	311.3	252.0	(19.1)%
Profit attributable to owners of the parent company	226.5	172.5	(23.8)%

<Revenue>

Revenue decreased by 2.7% from the same period of the previous year to ¥1,030.2 billion, with increases in the International Tobacco Business being offset by decreases in the Domestic Tobacco Business and the Processed Food Business mainly due to the impacts of restrictions on non-essential outings during the declaration of a state of emergency, and by a decrease in the Pharmaceutical Business. The spread of COVID-19 has affected the Group businesses, and the impact is expected to lower revenue by approximately ¥35.0 billion.

<Adjusted operating profit>

Adjusted operating profit at constant rates of exchange increased by 7.5% from the same period of the previous fiscal year driven by growth in the International Tobacco Business due to the effects of favorable pricing, as well as a growth in the Pharmaceutical Business, partially offset by decreases in the Domestic Tobacco Business and the Processed Food Business due to a decrease in revenue. Adjusted operating profit

including foreign exchange effects was ¥287.6 billion, which was about the same level as the same period of the previous year, due to unfavorable foreign exchange effects in the International Tobacco Business.

<Operating profit>

Operating profit decreased by 19.1% from the same period of the previous year to ¥252.0 billion, due to factors such as the disappearance of revenue relating to the termination of exclusive license agreements for six anti-HIV drugs in Japan in the Pharmaceutical Business during the previous year.

<Profit attributable to owners of the parent company>

Profit attributable to owners of the parent decreased by 23.8% from the same period of the previous year to ¥172.5 billion, due mainly to a decline in operating profit and an increase in financing costs.

b. Operating segments

Domestic Tobacco Business

(Billions of cigarettes, Billions of yen)

Domestic Tobacco Business	Six months ended June 30, 2019	Six months ended June 30, 2020	Change
Cigarette industry volume ^(Note 1)	61.2	57.0	(6.9)%
Cigarette sales volume ^(Note 2)	37.3	34.2	(8.6)%
Core revenue	282.3	248.8	(11.9)%
Adjusted operating profit	109.2	81.8	(25.1)%

<Cigarette sales volume>

In addition to the expansion of the RRP market, the downtrend in total demand, the impact of fixed-price revisions, and the full-scale implementation of the Partial Amendment of the Health Promotion Act, cigarette industry volume was affected by a temporary decline in demand for cigarettes combined with a rise in demand for RRP caused by restrictions on non-essential outings following the declaration of the state of emergency, leading to a decline in cigarette industry volume of 6.9% from the same period of the previous year. The Company's cigarette sales volume fell by 8.6% from the same period of the previous year due to a decline in cigarette industry volume as well as our cigarette market share loss.

Cigarette market share of the Company decreased by 1.1 ppt from the same period of the previous year to 59.9% due to intensified competition among low-end products.

<RRP sales results> ^(Note 3)

The share of RRP in the domestic tobacco market is estimated to have been about 25% (shipment basis). The Company's RRP sales volume reached 1.8 billion cigarette equivalent units, and in the RRP category, the market share of the Company based on consumer off-take is estimated to have been about 10%.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business fell by 11.9% from the same period of the previous year, due to the impact of lower cigarette sales volume, the effect of a negative price gap in cigarettes caused by leaving the prices of some products unchanged after the consumption tax was increased in October 2019, a decrease in RRP-related revenue, and decreases in domestic duty-free sales and the China business sales. RRP-related revenue decreased by ¥4.5 billion from the same period of the previous year to ¥25.9 billion mainly due to a decrease in sales of devices, despite the increase in RRP sales volume. Furthermore, we estimate that the negative impact of COVID-19 on core revenue from tobacco business was slightly over ¥10.0 billion, of which the effect on the domestic duty-free market and the Chinese business accounted for approximately half.

Adjusted operating profit decreased by 25.1% from the same period of the previous year due to lower core revenue from the tobacco business as well as a rise in expenses related to the strengthening of promotions for RRP and little cigars.

- (Note: 1) Cigarette industry volume includes sales volume for the whole Japanese cigarette market. Note also that the figure stated above includes little cigars but excludes the sales volume associated with RRP and the like.
- (Note: 2) In addition to the figure stated above for sales volume, during the six months ended June 30, 2020, 0.9 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (2.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above includes little cigars but excludes RRP and the like.
- (Note: 3) RRP sales volume is converted at the equivalent of 20 cigarettes per pack. The above figures do not include sales volume sold at duty-free shops in Japan. Also, RRP-related revenue includes revenue from duty-free shops in Japan and revenue from devices and associated accessories, etc.

International Tobacco Business

(Billions of cigarettes, Billions of yen)

International Tobacco Business	Six months ended June 30, 2019	Six months ended June 30, 2020	Change
Total shipment volume ^(Note 4)	222.5	211.9	(4.8)%
GFB shipment volume ^(Note 5)	136.3	136.3	(0.0)%
Core revenue	607.5	626.1	3.1%
Adjusted operating profit	185.4	214.3	15.6%

(Millions of U.S. dollar)

International Tobacco Business [U.S. dollar-based]	Six months ended June 30, 2019	Six months ended June 30, 2020	Change
Core revenue	5,520	5,784	4.8% [9.5%]
Adjusted operating profit	1,685	1,980	17.6% [27.3%]

* The figures in brackets show change from the same period of the previous year at constant rates of exchange (U.S. dollar-based)

<Total shipment volume and market share>

Total shipment volume fell by 4.8% from the same period of the previous year due to the impact on duty-free sales of the decline in the number of travelers, as well as contractions in total demand in multiple markets, such as Russia. In addition, COVID-19 has had a negative impact on total shipment volume in duty-free sales and in some emerging markets. Total shipment volume excluding the positive effects from trade inventory adjustments fell by 5.2% from the same period of the previous year. Market share continued to grow in various markets, including the key markets of Italy, Iran, the U.K., Canada, Spain, Taiwan, Germany, Romania, etc.

GFB shipment volume remained a similar level to that of the same period of the previous year, as a result of firm performance of Winston (+1.4%) and LD (+2.7%).

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit increased by 3.1% and 15.6%, respectively, from the same period of the previous year, as the effects of favorable pricing exceeded the unfavorable volume effects and foreign exchange effects. The impact from the spread of COVID-19 is expected to lower core revenue from the tobacco business by approximately ¥20.0 billion.

Despite the unfavorable volume effects and foreign exchange effects, U.S. dollar-based core revenue from the tobacco business including foreign exchange effects increased by 4.8% from the same period of the previous year as a result of the effects of favorable pricing in the Philippines, Romania, etc. At constant rates of exchange, it increased by 9.5% from the same period of the previous year.

Despite unfavorable foreign exchange effects, U.S. dollar-based adjusted operating profit including foreign exchange effects increased by 17.6% from the same period of the previous year as a result of the effects of favorable pricing. At constant rates of exchange, it increased by 27.3% from the same period of the previous year.

The Regional Breakdown of International Tobacco Business ^(Note 6)

Results of International Tobacco Business in each region are as follows.

(Billions of cigarettes, Billions of yen, Millions of U.S. dollar)

	Six months ended June 30, 2019	Six months ended June 30, 2020	Change	
South and West Europe				
Total shipment volume ^(Note 4)	33.3	34.0	2.3%	
GFB shipment volume ^(Note 5)	27.0	28.3	5.0%	
Core revenue	113.5	112.5	(0.9)%	
Core revenue [U.S. dollar-based]	1,031	1,039	0.7% [2.6%]	
North and Central Europe				
Total shipment volume ^(Note 4)	27.1	29.8	10.3%	
GFB shipment volume ^(Note 5)	13.6	15.5	13.4%	
Core revenue	114.4	125.1	9.3%	
Core revenue [U.S. dollar-based]	1,040	1,156	11.2% [14.7%]	
CIS+				
Total shipment volume ^(Note 4)	63.5	58.8	(7.4)%	
GFB shipment volume ^(Note 5)	44.3	39.9	(9.9)%	
Core revenue	143.2	146.2	2.1%	
Core revenue [U.S. dollar-based]	1,301	1,351	3.8% [9.7%]	
Rest-of-the-World				
Total shipment volume ^(Note 4)	98.7	89.3	(9.6)%	
GFB shipment volume ^(Note 5)	51.4	52.6	2.3%	
Core revenue	236.4	242.3	2.5%	
Core revenue [U.S. dollar-based]	2,148	2,238	4.2% [10.2%]	

* The figures in brackets show change from the same period of the previous year at constant rates of exchange (U.S. dollar-based)

(Note: 4) Includes fine cut tobacco, cigars, pipe tobacco, snus, kretek and T-Vapor products, except for contract manufacturing products, waterpipe tobacco products and E-vapor products.

(Note: 5) GFB (Global Flagship Brands) consists of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS, LD.

(Note: 6) To make the Group's International Tobacco Business more deeply understood, this segment has been divided into four regions (South and West Europe, North and Central Europe, CIS+ and Rest-of-the-World). South and West Europe includes France, Italy and Spain; North and Central Europe includes Germany and the U.K.; CIS+ includes Romania and Russia; and Rest-of-the-World includes Iran, Taiwan and Turkey.

* The exchange rates of currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	Six months ended June 30, 2019	Six months ended June 30, 2020	Change	
USD/¥	110.06	108.23	(1.83)	1.7% appreciation
USD/RUB	65.34	69.24	3.90	5.6% depreciation
USD/GBP	0.77	0.79	0.02	2.6% depreciation
USD/EUR	0.89	0.91	0.02	2.5% depreciation
USD/CHF	1.00	0.97	(0.03)	3.5% appreciation
USD/TWD	30.96	30.01	(0.95)	3.2% appreciation
USD/TRY	5.62	6.48	0.86	13.3% depreciation
USD/IRR	96,571	139,706	43,135	30.9% depreciation

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Six months ended June 30, 2019	Six months ended June 30, 2020	Change
Revenue	41.8	37.3	(10.8)%
Adjusted operating profit	5.7	7.9	38.8%

<Revenue and adjusted operating profit>

Revenue decreased by 10.8% from the same period of the previous year due mainly to lower royalty revenue overseas. The impact from the spread of COVID-19 on revenue is expected to be immaterial.

Adjusted operating profit increased by 38.8% from the same period of the previous year, despite the decline in revenue, due to the decrease in research and development expenses following the completion of trials for the clinical development of the product for which manufacturing and marketing application were submitted, and due to an increase in profit at Group company Torii Pharmaceutical Co., Ltd.

Processed Food Business

(Billions of yen)

Processed Food Business	Six months ended June 30, 2019	Six months ended June 30, 2020	Change
Revenue	75.4	71.8	(4.8)%
Adjusted operating profit	1.6	0.3	(78.2)%

<Revenue and adjusted operating profit>

Revenue was affected by restrictions on non-essential outings following the declaration of the state of emergency, and although there was a growth in sales from rising demand for products for use at home in the frozen and ambient foods business, the decline in sales resulting from the fall in demand for products used in restaurants in the frozen and ambient foods business and the seasonings business led to a revenue decrease of 4.8% from the same period of the previous year. The impact from the spread of COVID-19 is expected to lower revenue by approximately ¥4.0 billion.

Adjusted operating profit decreased by 78.2% from the same period of the previous year due to a decrease in revenue, despite improvements in the product mix.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets at the end of the six months ended June 30, 2020 decreased by ¥205.9 billion from the end of the previous fiscal year to ¥5,347.2 billion. This was mainly due to decreases in goodwill, intangible assets, and property, plant and equipment caused by foreign exchange effects.

Liabilities

Total liabilities at the end of the six months ended June 30, 2020 decreased by ¥86.3 billion from the end of the previous fiscal year to ¥2,723.2 billion. This was mainly due to a decrease in tobacco excise tax payables and the repayment of short-term borrowings, despite a rise in subordinated loan and commercial paper issuances.

Equity

Total equity at the end of the six months ended June 30, 2020 decreased by ¥119.6 billion from the end of the previous fiscal year to ¥2,624.0 billion. This was mainly due to the fall in exchange differences on translation of foreign operations.

b. Cash flow position

Cash and cash equivalents at the end of the six months ended June 30, 2020 increased by ¥50.6 billion from the end of the previous fiscal year to ¥407.7 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥309.2 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the six months ended June 30, 2020 were ¥126.6 billion, compared with ¥221.9 billion provided in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes as well as payments of trade and other payables, despite the generation of a stable cash inflow from the tobacco business.

The last day of the previous fiscal year was a holiday for financial institutions. As a result, the amount of national tobacco excise tax payable for the six months ended June 30, 2020 is for seven months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the six months ended June 30, 2020 were ¥27.9 billion, compared with ¥82.3 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment, and intangible assets, despite the proceeds from sale of investments in associates.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the six months ended June 30, 2020 were ¥25.0 billion, compared with ¥104.0 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends, despite the proceeds from subordinated loan.

(3) Management Policy, Management Strategy, Etc.

During the six months ended June 30, 2020, there were no material changes in management policy, management strategy, etc. stipulated by the Group mentioned in the previous fiscal year's Annual Securities Report.

(4) Operational and Financial Issues to Be Addressed

During the six months ended June 30, 2020, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(5) Research and Development Activities

Research and development expenses of the entire Group during the six months ended June 30, 2020, were ¥28.9 billion.

During the six months ended June 30, 2020, there were no material changes in the status of the Group's research and development activities mentioned in the previous fiscal year's Annual Securities Report.

In January 2020, D-LAB was set up by the corporate divisions of the Company for the purpose of research and development, and expenses associated with this organization were included in research and development expenses, beginning in the first quarter ended March 31, 2020.

(6) Plans for New Installation and Retirement of Facilities

As of the end of the previous fiscal year, the plan for capital expenditures (facility construction and expansion) for the whole of the fiscal year under review was set at ¥144.0 billion, but at the end of the six months ended June 30, 2020, this was revised to ¥123.0 billion.

Moreover, there were no material changes in the main details and purposes of the capital expenditures by segment mentioned in the previous fiscal year's Annual Securities Report.

(7) Analysis of Capital Resources and Liquidity of Funds

a. Funding requirements

Funds are mainly allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, loans from financial institutions and bond and commercial paper issuances.

<Cash flows>

Please refer to “(2) Financial Position and Cash Flow Position, b. Cash flow position.”

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2019 and as of June 30, 2020 accounted for ¥666.6 billion and ¥657.0 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥115.3 billion and ¥213.3 billion respectively.

Short-term debt

Short-term borrowings from financial institutions totaled ¥192.6 billion as of December 31, 2019 and ¥111.4 billion as of June 30, 2020. There was no commercial paper outstanding as of December 31, 2019, but as of June 30, 2020, the outstanding balance was ¥99.8 billion.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of June 30, 2020, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

Moreover, in April 2020, as a provision for unforeseen circumstances, the Group increased its on-hand liquidity by ¥100.0 billion or more through the issuance of commercial papers and other means.

3. Important Operational Contracts

No important operational contracts were determined or entered into during the second quarter ended June 30, 2020.

III. Filing Company

1. Information on the Company's Shares

(1) Total Number of Shares Authorized

a. Total number of shares authorized

Class	Total number of shares authorized (Share)
Ordinary shares	8,000,000,000
Total	8,000,000,000

b. Number of shares issued

Class	Number of shares issued (Share; as of June 30, 2020)	Number of shares issued (Share; as of the date of filing: July 31, 2020)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	—	—

Notes: 1. The provisions of Article 2 of the Act on Japan Tobacco Inc. prescribe that the Japanese government must continue to hold more than one-third of all shares issued by the Company (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the General Meeting of Shareholders).

2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.

(2) Status of Subscription Rights to Shares

a. Stock options

No items to report.

b. Other status of subscription rights to shares

No items to report.

(3) Exercise of Bond Certificates With Subscription Rights to Shares With Exercise Price Amendment Clause

No items to report.

(4) Trends in Total Number of Shares Issued and Share Capital

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
April 1, 2020 to June 30, 2020	—	2,000,000	—	100,000	—	736,400

(5) Status of Major Shareholders

(as of June 30, 2020)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (excluding treasury shares) (%)
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,925,200	37.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	80,327,000	4.53
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	55,120,800	3.11
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo, Japan	44,257,500	2.49
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	23,660,000	1.33
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	22,171,100	1.25
JPMorgan Chase Bank 385781 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	20,241,494	1.14
State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	19,106,441	1.08
Barclays Securities Japan Limited	31F Roppongi Hills Mori Tower, 10-1, Roppongi 6-chome, Minato-ku, Tokyo, Japan	18,381,544	1.04
Japan Trustee Services Bank, Ltd. (Trust Account 7)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	18,021,100	1.02
Total	-	968,212,179	54.57

Note: In addition to the above, the Company held 225,757,249 shares of ordinary shares as treasury shares.

(6) Status of Voting Rights

a. Shares issued

(as of June 30, 2020)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	-	-	-
Shares with restricted voting rights (Treasury shares)	-	-	-
Shares with restricted voting rights (Other)	-	-	-
Shares with full voting rights (Treasury shares)	Ordinary shares 225,757,200	-	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,901,900	17,739,019	(Note 2)
Shares less than one unit	Ordinary shares 340,900	-	(Note 3)
Total number of shares issued	2,000,000,000	-	-
Total number of voting rights	-	17,739,019	-

- Notes: 1. The number of "Shares with full voting rights (Other)" includes 33,600 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 336 units of voting rights related to shares with full voting rights in its name.
2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.
3. Includes 49 shares of treasury shares.

b. Treasury shares

(as of June 30, 2020)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	225,757,200	–	225,757,200	11.29
Total	–	225,757,200	–	225,757,200	11.29

Note: The treasury shares of 239,200 shares were allotted on May 26, based on the allocation of treasury shares towards the Restricted Stock Remuneration Plan, which was resolved at the meeting of the Board of Directors of the Company held on April 30, 2020.

2. Status of Officers

After filing the previous fiscal year's Annual Securities Report, there were no personnel changes of officers during the six months ended June 30, 2020.

IV. Accounting

1. Preparation Policy for the Condensed Interim Consolidated Financial Statements

The condensed interim consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the “Company”) are prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (hereinafter referred to as “IAS 34”), pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the “Ordinance on QCFS”).

Figures stated in the condensed interim consolidated financial statements are rounded to the nearest million yen.

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for this second quarter period (from April 1, 2020 to June 30, 2020) and for the six months ended June 30, 2020 were reviewed by Deloitte Touche Tohmatsu LLC.

1. Condensed Interim Consolidated Financial Statements

(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and cash equivalents (Note 6)	357,158	407,740
Trade and other receivables	458,513	445,351
Inventories	677,586	653,712
Other financial assets	21,943	28,170
Other current assets	410,443	373,102
Subtotal	1,925,643	1,908,075
Non-current assets held-for-sale	30	2,043
Total current assets	1,925,673	1,910,118
Non-current assets		
Property, plant and equipment (Note 7)	803,239	780,725
Goodwill (Note 7)	2,002,595	1,907,226
Intangible assets (Note 7)	440,434	396,891
Investment property	16,588	16,236
Retirement benefit assets	67,377	63,813
Investments accounted for using the equity method	52,903	44,338
Other financial assets	109,568	99,503
Deferred tax assets	134,696	128,324
Total non-current assets	3,627,397	3,437,055
Total assets	5,553,071	5,347,173

	(Millions of yen)	
	As of December 31, 2019	As of June 30, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	408,597	357,731
Bonds and borrowings	284,135	383,008
Income tax payables	69,543	53,800
Other financial liabilities	21,862	22,588
Provisions	16,570	18,864
Other current liabilities	701,050	586,193
Subtotal	1,501,757	1,422,185
Liabilities directly associated with non-current assets held-for-sale	-	826
Total current liabilities	1,501,757	1,423,011
Non-current liabilities		
Bonds and borrowings (Note 8)	690,367	698,514
Other financial liabilities	41,062	48,935
Retirement benefit liabilities	320,614	308,795
Provisions	19,463	15,702
Other non-current liabilities	155,768	155,628
Deferred tax liabilities	80,430	72,572
Total non-current liabilities	1,307,702	1,300,146
Total liabilities	2,809,459	2,723,157
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(492,469)	(491,513)
Other components of equity	(431,741)	(586,905)
Retained earnings	2,750,506	2,786,723
Equity attributable to owners of the parent company	2,662,696	2,544,705
Non-controlling interests	80,916	79,310
Total equity	2,743,611	2,624,016
Total liabilities and equity	5,553,071	5,347,173

(2) Condensed Interim Consolidated Statement of Income

(For the six-month period)

Six months ended June 30, 2019 and 2020

	(Millions of yen)	
	2019	2020
Revenue (Notes 5, 10)	1,058,549	1,030,218
Cost of sales	(448,420)	(436,451)
Gross profit	610,129	593,767
Other operating income (Note 11)	66,494	4,005
Share of profit in investments accounted for using the equity method	2,606	1,613
Selling, general and administrative expenses (Note 12)	(367,903)	(347,396)
Operating profit (Note 5)	311,326	251,989
Financial income (Note 13)	4,109	3,739
Financial costs (Note 13)	(24,817)	(29,766)
Profit before income taxes	290,618	225,961
Income taxes	(52,194)	(52,607)
Profit for the period	238,424	173,354
Attributable to		
Owners of the parent company	226,451	172,495
Non-controlling interests	11,972	859
Profit for the period	238,424	173,354
Interim earnings per share		
Basic (Yen) (Note 14)	127.23	97.23
Diluted (Yen) (Note 14)	127.18	97.19

Reconciliation from “Operating profit” to “Adjusted operating profit”

	(Millions of yen)	
	2019	2020
Operating profit	311,326	251,989
Amortization cost of acquired intangibles arising from business acquisitions	34,673	32,644
Adjustment items (income)	(63,748)	(1,726)
Adjustment items (costs)	5,545	4,727
Adjusted operating profit (Note 5)	287,796	287,634

(For the three-month period)

Three months ended June 30, 2019 and 2020

		(Millions of yen)
	2019	2020
Revenue (Note 5)	553,127	510,598
Cost of sales	(235,865)	(215,320)
Gross profit	317,262	295,278
Other operating income	3,289	974
Share of profit in investments accounted for using the equity method	1,861	992
Selling, general and administrative expenses	(193,679)	(174,209)
Operating profit (Note 5)	128,733	123,035
Financial income	1,826	2,138
Financial costs	(12,669)	(14,315)
Profit before income taxes	117,890	110,859
Income taxes	(13,152)	(24,386)
Profit for the period	104,739	86,473
Attributable to		
Owners of the parent company	105,611	86,122
Non-controlling interests	(872)	351
Profit for the period	104,739	86,473
Interim earnings per share		
Basic (Yen) (Note 14)	59.54	48.54
Diluted (Yen) (Note 14)	59.52	48.52

Reconciliation from “Operating profit” to “Adjusted operating profit”

		(Millions of yen)
	2019	2020
Operating profit	128,733	123,035
Amortization cost of acquired intangibles arising from business acquisitions	16,886	15,585
Adjustment items (income)	(1,939)	(405)
Adjustment items (costs)	5,342	2,553
Adjusted operating profit (Note 5)	149,021	140,768

(3) Condensed Interim Consolidated Statement of Comprehensive Income

(For the six-month period)

Six months ended June 30, 2019 and 2020

(Millions of yen)

	2019	2020
Profit for the period	238,424	173,354
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2,067)	(3,195)
Remeasurements of defined benefit plans	-	(48)
Total of items that will not be reclassified to profit or loss	(2,067)	(3,243)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(25,318)	(151,822)
Net gain (loss) on derivatives designated as cash flow hedges	(91)	55
Total of items that may be reclassified subsequently to profit or loss	(25,408)	(151,766)
Other comprehensive income (loss), net of taxes	(27,476)	(155,009)
Comprehensive income (loss) for the period	210,948	18,345
Attributable to		
Owners of the parent company	199,375	17,987
Non-controlling interests	11,573	358
Comprehensive income (loss) for the period	210,948	18,345

(For the three-month period)

Three months ended June 30, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period	104,739	86,473
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(3,054)	774
Remeasurements of defined benefit plans	-	(48)
Total of items that will not be reclassified to profit or loss	(3,054)	725
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(48,054)	34,571
Net gain (loss) on derivatives designated as cash flow hedges	238	66
Total of items that may be reclassified subsequently to profit or loss	(47,816)	34,637
Other comprehensive income (loss), net of taxes	(50,870)	35,362
Comprehensive income (loss) for the period	53,869	121,834
Attributable to		
Owners of the parent company	55,149	121,713
Non-controlling interests	(1,280)	121
Comprehensive income (loss) for the period	53,869	121,834

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2019	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(24,833)	(91)	(2,153)
Comprehensive income (loss) for the period	-	-	-	-	(24,833)	(91)	(2,153)
Acquisition of treasury shares	-	-	(50,000)	-	-	-	-
Disposal of treasury shares	-	-	261	(216)	-	-	-
Share-based payments	-	-	-	26	-	-	-
Dividends (Note 9)	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(347)
Other increase (decrease)	-	-	-	-	-	(160)	-
Total transactions with the owners	-	-	(49,740)	(191)	-	(160)	(347)
As of June 30, 2019	<u>100,000</u>	<u>736,400</u>	<u>(492,569)</u>	<u>1,356</u>	<u>(479,751)</u>	<u>192</u>	<u>27,070</u>
As of January 1, 2020	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(151,428)	55	(3,109)
Comprehensive income (loss) for the period	-	-	-	-	(151,428)	55	(3,109)
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	957	(328)	-	-	-
Share-based payments	-	-	-	30	-	-	-
Dividends (Note 9)	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(367)
Other increase (decrease)	-	-	-	-	-	(17)	-
Total transactions with the owners	-	-	956	(298)	-	(17)	(367)
As of June 30, 2020	<u>100,000</u>	<u>736,400</u>	<u>(491,513)</u>	<u>1,258</u>	<u>(595,794)</u>	<u>(94)</u>	<u>7,725</u>

(Millions of yen)

	Equity attributable to owners of the parent company					Total equity
	Other components of equity		Retained earnings	Total	Non-controlling interests	
	Remeasurements of defined benefit plans	Total				
As of January 1, 2019	-	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	-	-	226,451	226,451	11,972	238,424
Other comprehensive income (loss)	-	(27,077)	-	(27,077)	(399)	(27,476)
Comprehensive income (loss) for the period	-	(27,077)	226,451	199,375	11,573	210,948
Acquisition of treasury shares	-	-	-	(50,000)	-	(50,000)
Disposal of treasury shares	-	(216)	(44)	0	-	0
Share-based payments	-	26	(19)	7	47	54
Dividends (Note 9)	-	-	(134,357)	(134,357)	(915)	(135,272)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(0)	(0)	1	0
Transfer from other components of equity to retained earnings	-	(347)	347	-	-	-
Other increase (decrease)	-	(160)	-	(160)	-	(160)
Total transactions with the owners	-	(698)	(134,073)	(184,511)	(867)	(185,378)
As of June 30, 2019	-	(451,132)	2,752,759	2,645,458	80,557	2,726,015
As of January 1, 2020	-	(431,741)	2,750,506	2,662,696	80,916	2,743,611
Profit for the period	-	-	172,495	172,495	859	173,354
Other comprehensive income (loss)	(27)	(154,509)	-	(154,509)	(501)	(155,009)
Comprehensive income (loss) for the period	(27)	(154,509)	172,495	17,987	358	18,345
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(328)	(628)	0	-	0
Share-based payments	-	30	229	259	35	294
Dividends (Note 9)	-	-	(136,583)	(136,583)	(612)	(137,195)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	364	364	(1,387)	(1,023)
Transfer from other components of equity to retained earnings	27	(340)	340	-	-	-
Other increase (decrease)	-	(17)	-	(17)	-	(17)
Total transactions with the owners	27	(656)	(136,278)	(135,977)	(1,964)	(137,940)
As of June 30, 2020	-	(586,905)	2,786,723	2,544,705	79,310	2,624,016

(5) Condensed Interim Consolidated Statement of Cash Flows
Six months ended June 30, 2019 and 2020

	2019	2020
		(Millions of yen)
		2020
Cash flows from operating activities		
Profit before income taxes	290,618	225,961
Depreciation and amortization	91,252	90,901
Impairment losses	539	1,003
Interest and dividend income	(3,906)	(3,736)
Interest expense	14,247	11,281
Share of profit in investments accounted for using the equity method	(2,606)	(1,613)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	113	(262)
(Increase) decrease in trade and other receivables	(17,648)	(23,589)
(Increase) decrease in inventories	1,802	3,332
Increase (decrease) in trade and other payables	(25,455)	(33,172)
Increase (decrease) in retirement benefit liabilities	(7,986)	(10,855)
(Increase) decrease in prepaid tobacco excise taxes	(4,296)	11,073
Increase (decrease) in tobacco excise tax payables	(23,138)	(72,046)
Increase (decrease) in consumption tax payables	25,719	(2,417)
Other	(36,331)	(14,009)
Subtotal	302,925	181,852
Interest and dividends received	8,794	6,071
Interest paid	(11,195)	(8,682)
Income taxes paid	(78,586)	(52,607)
Net cash flows from operating activities	221,938	126,634
Cash flows from investing activities		
Purchase of securities	(20,413)	(26,866)
Proceeds from sale and redemption of securities	23,933	28,509
Purchase of property, plant and equipment	(52,230)	(34,470)
Proceeds from sale of investment property	2,685	1,500
Purchase of intangible assets	(8,068)	(14,834)
Payments into time deposits	(262)	(338)
Proceeds from withdrawal of time deposits	193	209
Subsequent payments for past fiscal years' business combinations	(28,710)	-
Proceeds from sale of investments in associates	-	17,402
Other	609	1,005
Net cash flows from investing activities	(82,263)	(27,883)

	2019	(Millions of yen) 2020
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 9)	(134,320)	(136,537)
Dividends paid to non-controlling interests	(1,011)	(830)
Capital contribution from non-controlling interests	81	65
Increase (decrease) in short-term borrowings and commercial paper	88,748	23,183
Proceeds from long-term borrowings	-	98,888
Repayments of long-term borrowings	(521)	(422)
Repayments of lease liabilities	(7,020)	(8,203)
Acquisition of treasury shares	(50,000)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	(1,121)
Other	0	0
Net cash flows from financing activities	(104,044)	(24,978)
Net increase (decrease) in cash and cash equivalents	35,631	73,773
Cash and cash equivalents at the beginning of the period	282,063	357,158
Effect of exchange rate changes on cash and cash equivalents	(8,535)	(23,191)
Cash and cash equivalents at the end of the period (Note 6)	309,159	407,740

Notes to Condensed Interim Consolidated Financial Statements

1. Reporting Entity

The Company is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (<https://www.jt.com/>).

The condensed interim consolidated financial statements for the three-month period ended June 30, 2020 and for the six-month period ended June 30, 2020 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on July 31, 2020 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

The Group's condensed interim consolidated financial statements, which satisfy the requirements concerning the "Specified Company applying Designated International Financial Reporting Standards" prescribed in Article 1-2 of the Ordinance on QCFS, are prepared in accordance with International Financial Reporting Standards pursuant to the provision of Article 93 of the Ordinance on QCFS.

The condensed interim consolidated financial statements are prepared in accordance with IAS 34 and do not include all information required for the consolidated financial statements for the year. They should be read along with the consolidated financial statements for the year ended December 31, 2019.

3. Significant Accounting Policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the year ended December 31, 2019 except the following item.

The Group computes income taxes for the interim period based on the estimated average annual effective tax rate.

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the beginning of the first quarter ended March 31, 2020.

	IFRS	Description of new standards and amendments
IFRS 3	Business Combinations	Amendments to definition of "business"
IFRS 16	Leases	Amendments to permit a practical expedient for COVID-19-related rent concessions

The adoption of the above standards and interpretations does not have a material impact on the condensed interim consolidated financial statements.

IFRS 16 amendment mentioned above has been early applied since May 2020. The change in accounting policy has been applied retrospectively from January 1, 2020, which has no impact on the condensed interim consolidated financial statements for the first quarter ended March 31, 2020.

4. Significant Accounting Estimates and Judgements

Preparation of condensed interim consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the interim period end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the interim period end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change and future periods.

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the year ended December 31, 2019.

The spread of COVID-19 has affected the Group businesses, including a decrease in duty-free sales in the tobacco business and a change in consumer trends in the Domestic Tobacco Business and the Processed Food Business due to people voluntarily staying home following the declaration of a state of emergency.

The Group anticipates the impact from the spread of COVID-19 to continue till at least the end of year December 31, 2020. However, at present, there is no material impact on accounting estimates and judgements.

5. Operating Segments

(1) Outline of Reportable Segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.” They are determined by the type of products sold, their characteristics, and their markets.

The “Domestic Tobacco Business” manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company’s China Division operates). The “International Tobacco Business” manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The “Pharmaceutical Business” consists of research and development, and the manufacture and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods, bakery products and seasonings.

(2) Revenues and Performances of Reportable Segments

Revenues and performances of reportable segments are as follows. The Board of Directors assesses segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expense categories are excluded from segmental performance. Transactions within segments are primarily based upon prevailing market prices.

(For the six-month period)

Six months ended June 30, 2019

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	302,723	635,651	41,807	75,423	1,055,604	2,945	-	1,058,549
Intersegment revenue	3,607	15,900	-	0	19,508	3,738	(23,245)	-
Total revenue	<u>306,331</u>	<u>651,550</u>	<u>41,807</u>	<u>75,423</u>	<u>1,075,112</u>	<u>6,683</u>	<u>(23,245)</u>	<u>1,058,549</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>109,198</u>	<u>185,406</u>	<u>5,714</u>	<u>1,601</u>	<u>301,918</u>	<u>(13,893)</u>	<u>(230)</u>	<u>287,796</u>

Six months ended June 30, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	267,732	651,930	37,272	71,840	1,028,773	1,445	-	1,030,218
Intersegment revenue	3,773	12,146	-	0	15,919	2,748	(18,667)	-
Total revenue	<u>271,505</u>	<u>664,075</u>	<u>37,272</u>	<u>71,840</u>	<u>1,044,692</u>	<u>4,193</u>	<u>(18,667)</u>	<u>1,030,218</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>81,819</u>	<u>214,326</u>	<u>7,934</u>	<u>348</u>	<u>304,427</u>	<u>(16,822)</u>	<u>28</u>	<u>287,634</u>

Reconciliation from “Adjusted operating profit” to “Profit before income taxes”

Six months ended June 30, 2019

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	109,198	185,406	5,714	1,601	301,918	(13,893)	(230)	287,796
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(26,551)	-	-	(34,673)	-	-	(34,673)
Adjustment items (income) (Note 3)	24	804	61,018	-	61,845	1,903	-	63,748
Adjustment items (costs) (Note 4)	-	(938)	(4,225)	(172)	(5,335)	(210)	-	(5,545)
Operating profit (loss)	101,099	158,721	62,507	1,429	323,756	(12,199)	(230)	311,326
Financial income								4,109
Financial costs								(24,817)
Profit before income taxes								<u>290,618</u>

Six months ended June 30, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	81,819	214,326	7,934	348	304,427	(16,822)	28	287,634
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(24,522)	-	-	(32,644)	-	-	(32,644)
Adjustment items (income) (Note 3)	-	288	150	-	438	1,288	-	1,726
Adjustment items (costs) (Note 4)	-	(2,794)	(890)	(0)	(3,684)	(1,043)	-	(4,727)
Operating profit (loss)	73,696	187,299	7,194	348	268,537	(16,577)	28	251,989
Financial income								3,739
Financial costs								(29,766)
Profit before income taxes								<u>225,961</u>

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) “Other” includes business activities relating to real estate rental and corporate expenditure relating to corporate communication and operation of the head office.

(Note 3) The breakdown of “Adjustment items (income)” is as follows:

Six months ended June 30, 2019 and 2020

	(Millions of yen)	
	2019	2020
Gain on transfer of pharmaceutical licenses	60,518	-
Restructuring incomes	2,451	1,301
Other	780	426
Adjustment items (income)	<u>63,748</u>	<u>1,726</u>

Restructuring incomes for six months ended June 30, 2019 and 2020 mainly relate to gains on sale of real estate. The breakdown of restructuring incomes is described in “11. Other Operating Income.”

(Note 4) The breakdown of “Adjustment items (costs)” is as follows:

Six months ended June 30, 2019 and 2020

	(Millions of yen)	
	2019	2020
Restructuring costs	5,389	2,996
Other	156	1,731
Adjustment items (costs)	<u>5,545</u>	<u>4,727</u>

Restructuring costs for six months ended June 30, 2019 mainly relate to business restructuring in the “Pharmaceutical Business.” The breakdown of restructuring costs is described in “12. Selling, general and administrative expenses.”

(For the three-month period)
 Three months ended June 30, 2019

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Revenue								
External revenue	158,057	335,286	19,020	39,443	551,807	1,320	-	553,127
Intersegment revenue	1,736	7,806	-	0	9,542	2,234	(11,776)	-
Total revenue	<u>159,793</u>	<u>343,092</u>	<u>19,020</u>	<u>39,443</u>	<u>561,349</u>	<u>3,554</u>	<u>(11,776)</u>	<u>553,127</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>58,181</u>	<u>96,220</u>	<u>1,243</u>	<u>1,316</u>	<u>156,960</u>	<u>(8,266)</u>	<u>327</u>	<u>149,021</u>

Three months ended June 30, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Revenue								
External revenue	132,624	325,769	16,544	35,091	510,029	569	-	510,598
Intersegment revenue	2,035	5,395	-	0	7,430	1,340	(8,770)	-
Total revenue	<u>134,659</u>	<u>331,164</u>	<u>16,544</u>	<u>35,091</u>	<u>517,458</u>	<u>1,910</u>	<u>(8,770)</u>	<u>510,598</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>38,587</u>	<u>110,269</u>	<u>1,355</u>	<u>(70)</u>	<u>150,141</u>	<u>(9,292)</u>	<u>(81)</u>	<u>140,768</u>

Reconciliation from “Adjusted operating profit” to “Profit before income taxes”

Three months ended June 30, 2019

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	58,181	96,220	1,243	1,316	156,960	(8,266)	327	149,021
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(12,824)	-	-	(16,886)	-	-	(16,886)
Adjustment items (income) (Note 3)	-	804	500	-	1,304	636	-	1,939
Adjustment items (costs) (Note 4)	-	(967)	(4,215)	(10)	(5,193)	(150)	-	(5,342)
Operating profit (loss)	54,120	83,232	(2,472)	1,305	136,186	(7,779)	327	128,733
Financial income								1,826
Financial costs								(12,669)
Profit before income taxes								<u>117,890</u>

Three months ended June 30, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	38,587	110,269	1,355	(70)	150,141	(9,292)	(81)	140,768
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(11,524)	-	-	(15,585)	-	-	(15,585)
Adjustment items (income) (Note 3)	-	255	150	-	405	1	-	405
Adjustment items (costs) (Note 4)	-	(1,386)	(884)	(0)	(2,270)	(283)	-	(2,553)
Operating profit (loss)	34,525	97,614	621	(70)	132,690	(9,574)	(81)	123,035
Financial income								2,138
Financial costs								(14,315)
Profit before income taxes								<u>110,859</u>

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) “Other” includes business activities relating to real estate rental and corporate expenditure relating to corporate communication and operation of the head office.

(Note 3) The breakdown of “Adjustment items (income)” is as follows:

Three months ended June 30, 2019 and 2020

	2019	2020
Restructuring incomes	1,160	13
Other	780	392
Adjustment items (income)	<u>1,939</u>	<u>405</u>

(Note 4) The breakdown of “Adjustment items (costs)” is as follows:

Three months ended June 30, 2019 and 2020

	2019	2020
Restructuring costs	5,337	1,566
Other	6	986
Adjustment items (costs)	<u>5,342</u>	<u>2,553</u>

Restructuring costs for three months ended June 30, 2019 mainly relate to business restructuring in the “Pharmaceutical Business.”

6. Cash and Cash Equivalents

The Group’s Iranian subsidiaries’ ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. The Group’s Canadian subsidiary, JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”) is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the “Companies’ Creditors Arrangement Act (CCAA).” “Cash and cash equivalents” as of June 30, 2020 includes cash and cash equivalents of ¥49,440 million and ¥33,788 million held by the Group’s Iranian subsidiaries and JTI-Mac, respectively.

7. Property, Plant and Equipment, Goodwill and Intangible Assets

The schedules of the carrying amounts of “Property, plant and equipment,” “Goodwill” and “Intangible assets” are as follows:

Carrying Amount	(Millions of yen)		
	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2020	803,239	2,002,595	440,434
Individual acquisition	53,838	-	13,695
Transfer to investment property	(643)	-	-
Transfer to non-current assets held-for-sale	(1,041)	-	(20)
Depreciation or amortization	(50,478)	-	(40,168)
Impairment losses	(850)	-	-
Reversal of impairment losses	36	-	13
Sale or disposal	(670)	-	(847)
Exchange differences on translation of foreign operations	(22,263)	(95,369)	(16,402)
Other	(443)	-	186
As of June 30, 2020	<u>780,725</u>	<u>1,907,226</u>	<u>396,891</u>

8. Borrowings

The Company entered into a subordinated loan agreement (aggregate amount of borrowings: ¥100,000 million, carrying amount: ¥98,976 million, repayment date: January 31, 2080) for the six months ended June 30, 2020.

The Company may, at its option, repay early all or a portion of the principal on any interest payment date on or after the interest payment date in January 2025.

9. Dividends

Dividends paid for each interim period are as follows:

Six months ended June 30, 2019

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution) Annual Shareholders' Meeting (March 20, 2019)	Ordinary shares	134,357	75	December 31, 2018	March 22, 2019

Six months ended June 30, 2020

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution) Annual Shareholders' Meeting (March 19, 2020)	Ordinary shares	136,583	77	December 31, 2019	March 23, 2020

Dividends, for which the effective date falls in the following quarter period, are as follows:

Six months ended June 30, 2019

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution) Board of Directors (July 31, 2019)	Ordinary shares	136,579	77	June 30, 2019	September 2, 2019

Six months ended June 30, 2020

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution) Board of Directors (July 31, 2020)	Ordinary shares	136,617	77	June 30, 2020	September 1, 2020

10. Revenue

(1) Disaggregation of Revenue

The disaggregation of “Revenue” for each interim period is as follows. The amounts are presented after eliminations of intercompany transactions.

Six months ended June 30, 2019

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharmaceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	282,339	607,509	-	-	-	889,848
Other	20,385	28,141	41,807	75,423	2,945	168,701
Total	<u>302,723</u>	<u>635,651</u>	<u>41,807</u>	<u>75,423</u>	<u>2,945</u>	<u>1,058,549</u>

Six months ended June 30, 2020

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharmaceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	248,834	626,093	-	-	-	874,927
Other	18,897	25,837	37,272	71,840	1,445	155,291
Total	<u>267,732</u>	<u>651,930</u>	<u>37,272</u>	<u>71,840</u>	<u>1,445</u>	<u>1,030,218</u>

(Note 1) The “Domestic Tobacco Business” does not include revenue related to imported tobacco delivery charges. In addition, the “International Tobacco Business” does not include revenue related to the distribution business and contract manufacturing.

(Note 2) Revenues from RRP in core revenue from the “Domestic Tobacco Business” were ¥30,423 million and ¥25,919 million for the six months ended June 30, 2019 and 2020, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

(Note 3) Core revenue by cluster from the “International Tobacco Business” is as follows:

Six months ended June 30, 2019 and 2020

(Millions of yen)

	2019	2020
South and West Europe	113,476	112,468
North and Central Europe	114,429	125,111
CIS+	143,186	146,203
Rest-of-the-World	236,419	242,312
Total	<u>607,509</u>	<u>626,093</u>

South and West Europe includes France, Italy and Spain. North and Central Europe includes Germany and the United Kingdom. CIS+ includes Romania and Russia. Rest-of-the-World includes Iran, Taiwan and Turkey.

(2) Gross Turnover

The reconciliation from “Gross turnover” to “Revenue” for each interim period is as follows:

Six months ended June 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gross turnover	3,717,817	3,636,363
Tobacco excise taxes and agency transaction amount	(2,659,268)	(2,606,144)
Revenue	<u>1,058,549</u>	<u>1,030,218</u>

11. Other Operating Income

The breakdown of “Other operating income” for each interim period is as follows:

Six months ended June 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gain on transfer of pharmaceutical licenses	60,518	-
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	2,265	1,582
Other (Note)	3,712	2,424
Total	<u>66,494</u>	<u>4,005</u>

(Note) The amount of restructuring incomes included in each account is as follows:

Six months ended June 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gain on sale of property, plant and equipment, intangible assets and investment property	1,880	1,266
Other	571	34
Total	<u>2,451</u>	<u>1,301</u>

12. Selling, General and Administrative Expenses

The breakdown of “Selling, general and administrative expenses” for each interim period is as follows:

Six months ended June 30, 2019 and 2020

	2019	2020
		(Millions of yen)
Advertising expenses	13,537	11,050
Promotion expenses	39,751	33,098
Commission	24,863	26,098
Employee benefit expenses (Note)	141,570	140,992
Research and development expenses	32,416	28,879
Depreciation and amortization	52,188	52,533
Impairment losses on other than financial assets (Note)	539	1,003
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	3,116	2,029
Other (Note)	59,922	51,715
Total	<u>367,903</u>	<u>347,396</u>

(Note) The amount of restructuring costs included in each account is as follows:

Six months ended June 30, 2019 and 2020

	2019	2020
		(Millions of yen)
Employee benefit expenses	4,752	534
Impairment losses on other than financial assets	125	117
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	192	201
Other	319	2,144
Total	<u>5,389</u>	<u>2,996</u>

13. Financial Income and Financial Costs

The breakdown of “Financial income” and “Financial costs” for each interim period is as follows:

Six months ended June 30, 2019 and 2020

	(Millions of yen)	
Financial Income	2019	2020
Dividend income	1,567	675
Interest income	2,339	3,061
Other	203	2
Total	<u>4,109</u>	<u>3,739</u>

Six months ended June 30, 2019 and 2020

	(Millions of yen)	
Financial Costs	2019	2020
Interest expenses	14,247	11,281
Foreign exchange losses (Note 1)	7,642	16,335
Employee benefit expenses (Note 2)	1,432	1,085
Other	1,495	1,065
Total	<u>24,817</u>	<u>29,766</u>

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.

(Note 2) Employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

14. Interim Earnings per Share

(For the six-month period)

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Six months ended June 30, 2019 and 2020

	2019	2020
Profit for the period attributable to owners of the parent company	226,451	172,495
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic interim earnings per share	226,451	172,495

B. Weighted-average Number of Ordinary Shares Outstanding During the Period

Six months ended June 30, 2019 and 2020

	2019	2020
Weighted-average number of shares during the period	1,779,826	1,774,011

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Six months ended June 30, 2019 and 2020

	2019	2020
Profit for the period used for calculation of basic interim earnings per share	226,451	172,495
Adjustment	-	(0)
Profit for the period used for calculation of diluted interim earnings per share	226,451	172,495

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

Six months ended June 30, 2019 and 2020

	2019	2020
Weighted-average number of ordinary shares during the period	1,779,826	1,774,011
Increased number of ordinary shares under subscription rights to shares	734	812
Weighted-average number of diluted ordinary shares during the period	1,780,560	1,774,824

(For the three-month period)

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Three months ended June 30, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period attributable to owners of the parent company	105,611	86,122
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic interim earnings per share	105,611	86,122

B. Weighted-average Number of Ordinary Shares Outstanding During the Period

Three months ended June 30, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of shares during the period	1,773,741	1,774,085

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Three months ended June 30, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period used for calculation of basic interim earnings per share	105,611	86,122
Adjustment	-	(0)
Profit for the period used for calculation of diluted interim earnings per share	105,611	86,122

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

Three months ended June 30, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of ordinary shares during the period	1,773,741	1,774,085
Increased number of ordinary shares under subscription rights to shares	724	784
Weighted-average number of diluted ordinary shares during the period	1,774,465	1,774,870

15. Financial Instruments

(Fair Value of Financial Instruments)

The carrying amount and fair value of financial instruments measured at amortized cost are as follows:

	(Millions of yen)			
	As of December 31, 2019		As of June 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	115,297	116,804	213,251	216,110
Bonds (Note)	666,623	683,650	657,011	686,730

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

The fair value hierarchy of financial instruments measured at fair value is as follows:

As of December 31, 2019

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Derivative assets	-	2,564	-	2,564
Equity securities	25,829	-	6,919	32,747
Other	442	17,673	5,008	23,123
Total	26,270	20,238	11,927	58,435
Derivative liabilities	-	7,739	-	7,739
Total	-	7,739	-	7,739

As of June 30, 2020

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Derivative assets	-	10,424	-	10,424
Equity securities	21,045	-	6,513	27,557
Other	436	16,667	3,822	20,925
Total	21,480	27,091	10,335	58,907
Derivative liabilities	-	5,888	-	5,888
Total	-	5,888	-	5,888

16. Commitments

Commitments for the acquisition of assets after each closing date are as follows:

	As of December 31, 2019	(Millions of yen) As of June 30, 2020
Acquisition of property, plant and equipment	35,747	46,130

17. Contingencies

As of June 30 2020, there are no significant changes to the matters described in the consolidated financial statements for the year ended December 31, 2019.

18. Subsequent Events

No items to report

2. Others

(Dividends)

The Board of Directors, at a meeting held on July 31, 2020, declared the following interim dividends for the current fiscal year.

- | | | |
|---|------------------|-------------------|
| (a) Total amount of interim dividends | ¥136,617 million | |
| (b) Amount per share | ¥77.00 | |
| (c) Effective date of requests for payment, and commencement date of payments | | September 1, 2020 |

(Note) Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2020.

B. Information on Guarantee Companies, etc. of Filing Company

No items to report

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

July 31, 2020

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuhiko Haga (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yoichi Matsushita (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of June 30, 2020, and the related condensed interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the six-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan.

A review consists primarily of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical procedures and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that we have obtained the evidence to provide a basis for our conclusion.

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of June 30, 2020, and the consolidated results of their operations for the three-month and six-month periods then ended and their cash flows for the six-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.